

MILK CONTROL BOARD

FINANCIAL STATEMENTS

For the Period from January 1, 2010 to October 1, 2010



SASKATCHEWAN

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AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

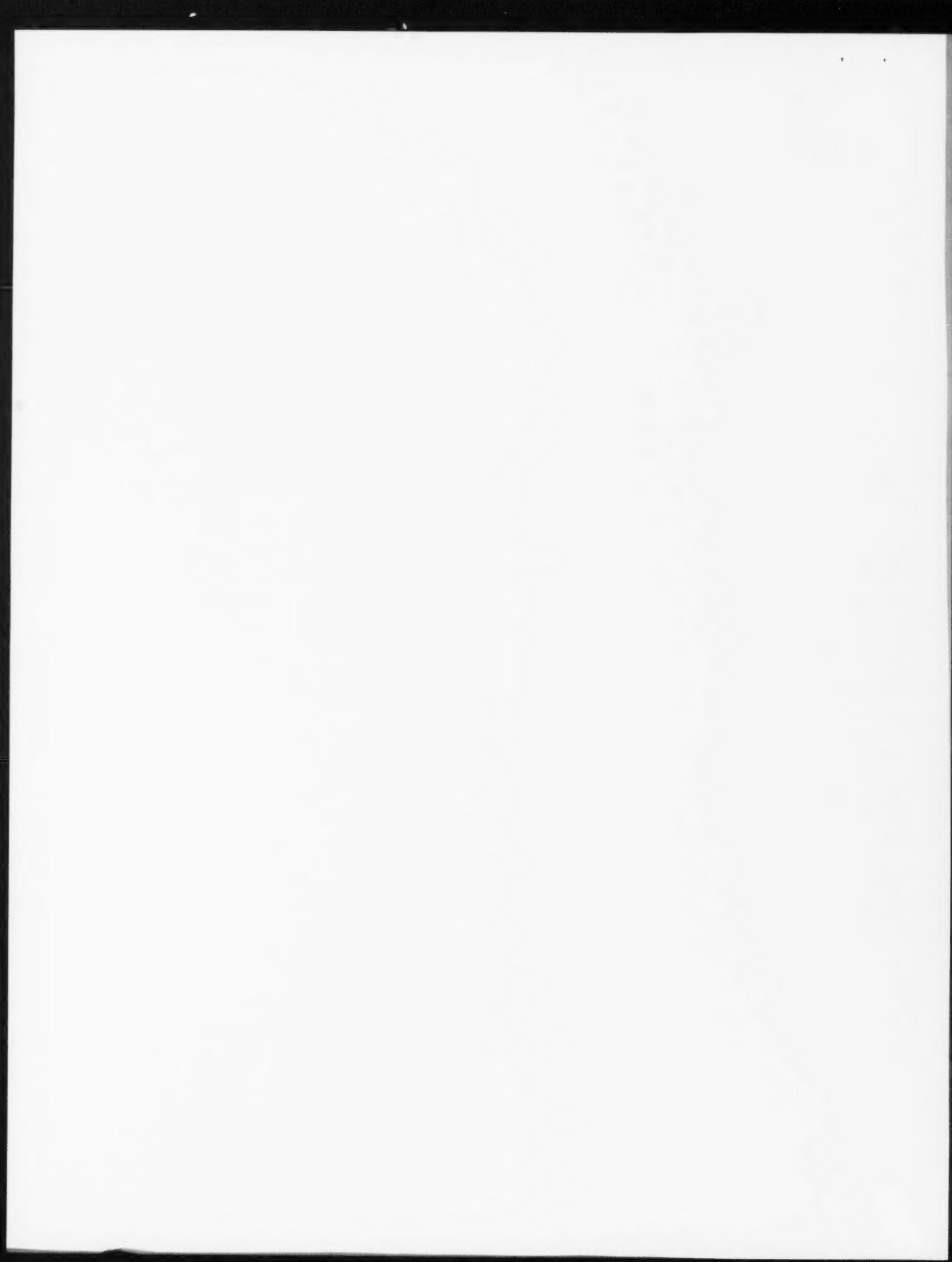
I have audited the statement of financial position of the Milk Control Board as at October 1, 2010 and the statements of operations, changes in net financial assets, and cash flow for the period from January 1, 2010 to October 1, 2010. The Board's management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Milk Control Board as at October 1, 2010 and the results of its operations, the change in its net financial assets and its cash flow for the period from January 1, 2010 to October 1, 2010 in accordance with Canadian generally accepted accounting principles.

Regina, Saskatchewan
December 10, 2010

Brian Atkinson, FCA
Acting Provincial Auditor



Statement 2

**MILK CONTROL BOARD
STATEMENT OF OPERATIONS**

	Budget 2010 (Note 6)	Actual 2010 (Jan. 1 – Oct. 1)	Actual 2009 (Note 8)
Revenue:			
Milk sold to processors	\$174,600,000	\$127,524,303	\$173,326,175
Milk pools (Note 4)	2,000,000	510,731	1,226,119
Milk pool administration and assessment fees	992,004	590,492	965,833
Interest	39,600	29,421	47,764
Milk quality penalties	230,000	234,653	188,894
Licence fees and miscellaneous	<u>64,922</u>	<u>14,723</u>	<u>3,474</u>
	<u>177,926,526</u>	<u>128,904,323</u>	<u>175,758,259</u>
Expenses:			
Milk purchased from producers	176,600,000	128,035,034	174,552,294
Salaries	360,000	301,767	350,029
Disposal of unsaleable milk	75,000	62,701	66,321
Travel, sustenance and vehicle expense	72,400	56,820	67,754
Rent	52,623	40,118	46,660
Legal	35,000	64,775	34,206
Employee benefits	71,009	32,727	66,171
Honoraria	33,900	24,038	33,613
Administrative expense	126,712	82,671	58,966
Cost of production study	20,000	19,426	23,125
Levy refund	244,000	-	533,902
Amortization	<u>59,100</u>	<u>59,985</u>	<u>58,707</u>
	<u>177,749,744</u>	<u>128,780,062</u>	<u>175,891,748</u>
Surplus (deficit) for the period	<u>\$ 176,782</u>	124,261	(133,489)
Accumulated surplus, beginning of period		<u>1,369,183</u>	<u>1,502,672</u>
Transfer to SMMB (Note 3)		<u>(1,493,444)</u>	<u>-</u>
Accumulated surplus, end of period - to Statement 1		<u>\$ -</u>	<u>\$ 1,369,183</u>

(See accompanying notes to the financial statements)

Statement 3

MILK CONTROL BOARD
STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

	Budget 2010 (Note 6)	Actual 2010 (Jan. 1 – Oct. 1)	Actual 2009 (Note 8)
Surplus (deficit) for the period	\$ 176,782	\$ 124,261	\$(133,489)
Acquisition of tangible capital assets	-	(10,783)	(94,716)
Amortization of tangible capital assets	<u>59,100</u>	<u>59,985</u>	<u>58,707</u>
Increase (decrease) in net financial assets	235,882	173,463	(169,498)
Net financial assets, beginning of period	979,837	979,837	1,149,335
Transfer to SMMB (Note 3)	<u>-</u>	<u>(1,153,300)</u>	<u>-</u>
Net financial assets, end of period	<u>\$1,215,719</u>	<u>\$ -</u>	<u>\$ 979,837</u>

(See accompanying notes to the financial statements)

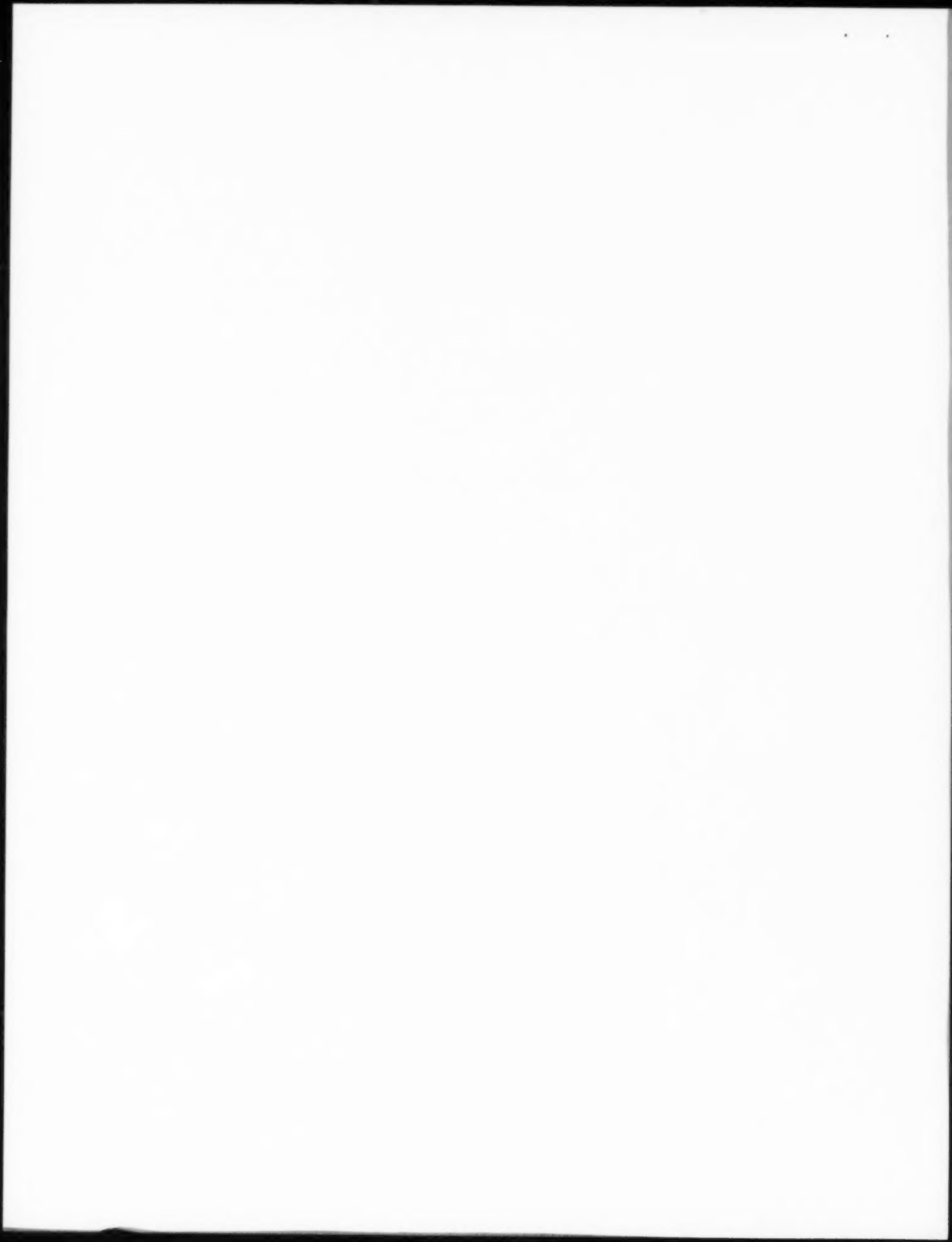


Statement 4

**MILK CONTROL BOARD
STATEMENT OF CASH FLOW**

	<u>2010</u> (Jan. 1 – Oct. 1)	<u>2009</u> (Note 8)
Cash Flows from Operating Activities:		
Cash receipts from processors, interest and fees	\$ 130,331,816	\$177,675,627
Cash paid to producers, employees and board members	<u>(130,303,290)</u>	<u>(178,540,280)</u>
Cash flows from operating activities	28,526	(864,653)
Cash Flow used for Capital Transactions:		
Purchase of tangible capital assets	<u>(10,783)</u>	<u>(94,716)</u>
Net increase (decrease) in cash during the period	17,743	(959,369)
Cash position, beginning of period	<u>1,897,695</u>	<u>2,857,064</u>
Cash position prior to transfer	1,915,438	1,897,695
Transfer to SMMB (Note 3)	<u>(1,915,438)</u>	-
Cash position, end of period	<u>\$ -</u>	<u>\$ 1,897,695</u>

(See accompanying notes to the financial statements)



MILK CONTROL BOARD
NOTES TO THE FINANCIAL STATEMENTS
October 1, 2010

1. Significant Accounting Policies

These financial statements have been prepared in accordance with generally accepted accounting principles as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. The significant accounting policies are as follows:

a) **Revenue Recognition**

Revenue from milk sold to processors is recognized when milk is delivered to processors.

2. Incorporation

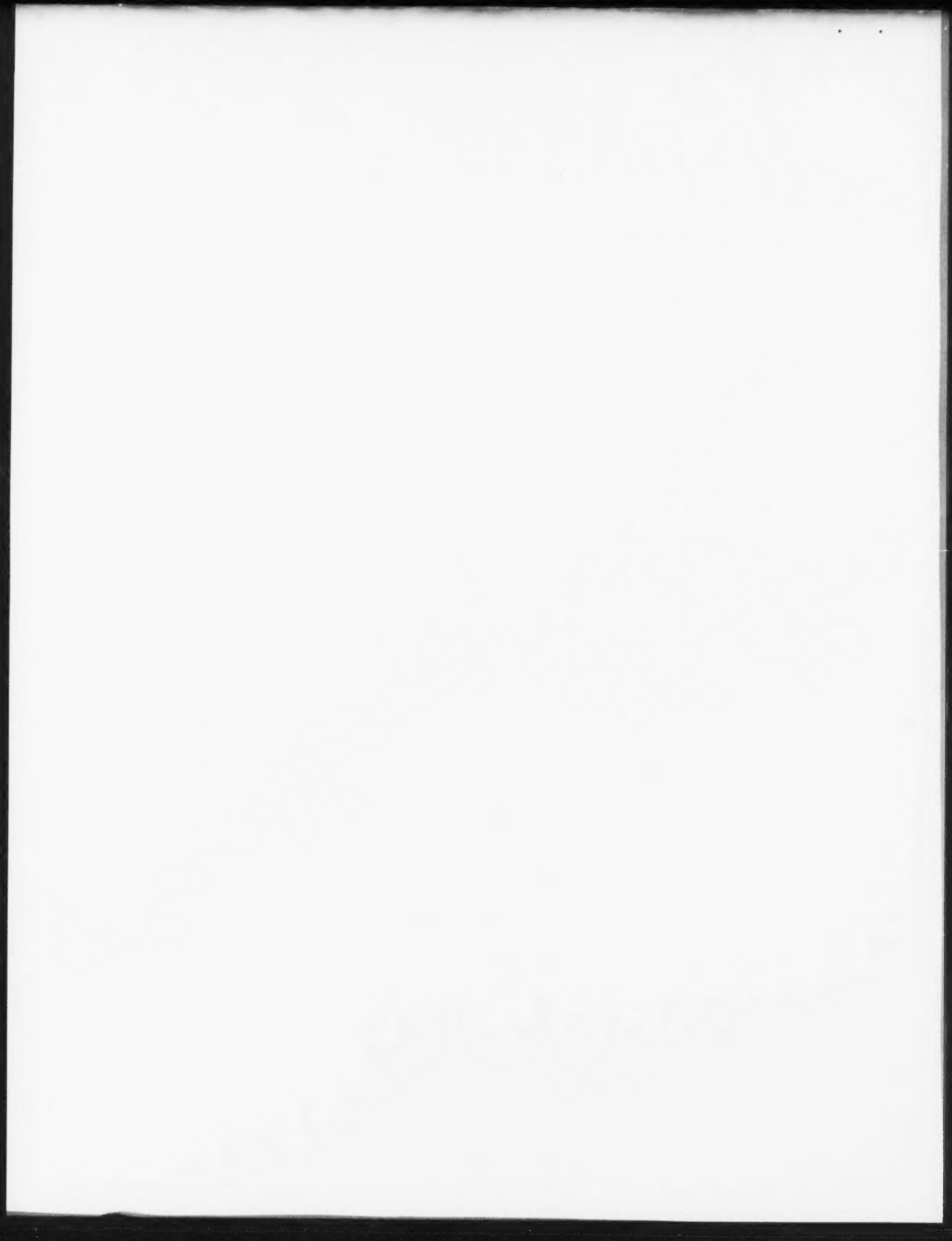
Until October 1, 2010, the Milk Control Board (Board) was a body corporate under *The Milk Control Act, 1992* (Act). The Board had authority to make any regulations or orders in connection with the production, supply, distribution and sale of milk.

The Board was responsible under the Act for the control and regulation of the marketing of milk in the province. In fulfilling this responsibility, the Board operated a milk pooling system whereby the Board purchased all milk produced in the province and sold it to processors. The purchase price paid by the Board was based on the quality and quantity of milk shipped by producers and on the value of milk sold to processors. The value of milk sold to processors was determined by its final product use and prices established by the Board.

3. Disestablishment of The Milk Control Board

In October 2009, Saskatchewan milk producers voted to establish a milk marketing board. On September 2, 2010, order-in-council 522/2010 proclaimed *The Milk Control Repeal Act* effective October 1, 2010. This Act repealed *The Milk Control Act, 1992* and disestablished the Milk Control Board. On April 21, 2010, order-in-council 231/2010 approved *The Milk Marketing Plan Regulations* establishing a new Saskatchewan Milk Marketing Board (SMMB).

Order-in-council 521/2010 authorized the transfer of the Milk Control Board's assets, liabilities, contracts and personal property to the SMMB on October 1, 2010.



On October 1, 2010 the Board transferred the following assets and liabilities to the SMMB:

FINANCIAL ASSETS

Cash	\$1,915,438
Accounts receivable	7,372,120

LIABILITIES

Accounts payable and accrued liabilities	<u>8,134,258</u>
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Net financial assets	1,153,300
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NON-FINANCIAL ASSETS

Tangible capital assets	340,144
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Accumulated surplus	\$1,493,444
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4. Milk Pools

Effective August 1, 1995 (and continued August 1, 2003), the Board entered into an arrangement with its counterparts in Prince Edward Island, Nova Scotia, New Brunswick, Quebec, Ontario, Manitoba, Alberta, and British Columbia and the Canadian Dairy Commission (CDC). As of September 2006, Newfoundland and Labrador had signed on. This arrangement provides for pooling of revenues from sales of milk components in industrial and special classes of milk sold in domestic and external markets. CDC administers the Industrial and Special Class Pool.

Effective March 1, 1997, the Board entered into an arrangement with its counterparts in British Columbia, Alberta and Manitoba and CDC. This arrangement provides for pooling of all revenues from sales of Fluid Milk and Industrial Milk, including special classes, by producers to processors in the four western provinces. The purpose of the arrangement is to pool producer returns as if the western provinces constituted a single market. CDC administers the Western Milk Pool.

Based on each province's monthly utilization, CDC will either distribute a portion of, or require a contribution to, the Industrial and Special Class Pool and Western Milk Pool. The Board received contributions of \$0.511 million in 2010 from the milk pools (2009 - \$1.226 million).



5. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Board by virtue of common control or significant influence by the Government of Saskatchewan.

Routine operating transactions with related parties for phone, office supplies and employee benefits are recorded at the standard rates charged by those organizations and are settled on normal trade terms. These transactions are as follows:

	<u>2010</u>	<u>2009</u>
Expenses	\$ 49,291	\$ 78,259

In addition, the Board paid Provincial Sales Tax to the Saskatchewan Ministry of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other transactions with related parties and amounts due to/from them and the terms of settlement are described in these financial statements and the notes thereto.

6. Budget

The Board approved the 12-month budget for the 2010 year on January 19, 2010.

7. Provincial Dairy Lab

In the April 6, 2006 provincial budget, the Government of Saskatchewan directed the transfer of the Provincial Dairy Lab (Lab) and the responsibility for enforcing dairy regulations under *The Animal Products Act* to the Board, including 4 staff and approximately \$135,000 in assets. The Board obtained a legal opinion in 2007, which stated that it does not have the authority under its existing legislation to operate the Lab nor enforce the regulations. The legal opinion that the Board obtained was substantiated by independent legal counsel in 2008. In January 2010, the Ministry closed the Lab. The Board contracted out component and quality testing functions and was being reimbursed by the Ministry for all costs until September 30, 2010.



In December 2006, the Board increased its levies charged to the producers and processors by \$0.04/hectolitre to finance the Lab's operating costs. In October 2009, the Board and the Ministry agreed that the additional levies collected to operate the Lab would be refunded back to the industry. Levies were refunded quarterly to producers and processors once payment for the Lab's operating costs was received from the Ministry. During the period, the Board refunded \$133,245 to producers and processors.

8. Comparative figures

The 2009 amounts presented are for the year ended December 31, 2009.